



# BANCO CENTRAL DO BRASIL

## Minutes of the 178<sup>th</sup> Meeting of the Monetary Policy Committee (Copom)

### Summary

Recent Economic Developments  
Assessment of Inflation Trends  
Monetary Policy Decision  
Inflation  
Economic Activity  
Surveys and Expectations  
Labor Market  
Credit and Delinquency Rates  
External Environment  
Foreign Trade and International Reserves  
Money Market and Open Market Operations

**Date:** October 8<sup>th</sup>, 2013, from 4:11PM to 7:53PM, and October 9<sup>th</sup>, from 5:04PM to 7:57PM

**Place:** BCB Headquarters meeting rooms – 8<sup>th</sup> floor on October 8<sup>th</sup> and 20<sup>th</sup> floor on October 9<sup>th</sup> – Brasília – DF

### In attendance:

#### Members of the Committee

Alexandre Antonio Tombini – Governor  
Aldo Luiz Mendes  
Altamir Lopes  
Anthero de Moraes Meirelles  
Carlos Hamilton Vasconcelos Araújo  
Luiz Awazu Pereira da Silva  
Luiz Edson Feltrim  
Sidnei Corrêa Marques

#### Department Heads (present on October 8<sup>th</sup>)

Bruno Walter Coelho Saraiva - International Affairs Department  
Eduardo José Araújo Lima - Research Department (also present on October 9<sup>th</sup>)  
Flávio Túlio Vilela - Department of Banking Operations and Payments System  
João Henrique de Paula Freitas Simão - Open Market Operations Department  
Márcio Barreira de Ayrosa Moreira - Department of Foreign Reserves  
Renato Jansson Rosek – Investor Relations and Special Studies Department  
Tulio José Lenti Maciel – Economic Department

#### Other participants (present on October 8<sup>th</sup>)

Gustavo Paul Kurrle – Press Officer  
Otávio Ribeiro Damaso – Chief of Governor 's Staff

The members of the Copom analyzed the recent performance of and the prospects for the Brazilian economy and for the international economy, under the monetary policy framework, which is designed to comply with the inflation targets established by the government.

### Recent Economic Developments

1. Monthly inflation measured by the Extended Consumer Price Index (IPCA) changed 0.35% in September, after increasing by 0.24% in August. As a consequence, inflation in twelve months retreated to 5.86% in September (5.28% until September 2012). Market prices changed 7.37% in twelve months (5.93% until September 2012), and regulated prices recorded the record low (1.12%) of the historical series started in 1994, down from 3.44% until September 2012. Among market prices, the prices of tradable goods increased 6.43% (3.37% until September 2012), and the prices of non-tradable goods, 8.20% (8.28% until September



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2012). The prices of food and beverages group registered 0.14% inflation in September, but still accumulate 9.23% in twelve months (9.53% until September 2012). On its turn, the prices of services rose 8.73% in twelve months (7.89% until September 2012). In short, regulated inflation retreats, at the same time that non-tradables inflation remains at high levels, and the tradables inflation is increasing.

2. The average of the underlying inflation measures, calculated by the BCB, changed from 0.41% in August to 0.46% in September. As a consequence, on a twelve-month trailing basis, inflation reached 6.22% (0.99 p.p. above the one registered until September 2012). Specifically, the smoothed trimmed means IPCA core inflation changed from 0.42% in August to 0.43% in September. The double weight core inflation, from 0.42% to 0.46%; the core inflation by exclusion of regulated prices and household food, from 0.45% to 0.52%; the non-smoothed trimmed means core inflation, from 0.34% to 0.40%; and the core by exclusion, which excludes ten household food items and fuels, from 0.41% to 0.48%. The diffusion index stood at 57.8% in September (compared to 66.3% in the same month of the previous year).
3. The General Price Index (IGP-DI) increased 1.36% in September and accumulated change of 4.47% in the twelve months through September (8.17% in the twelve months through September 2012). The main component of this indicator, the Wholesale Price Index (IPA), changed 3.62% (against 9.18% until September 2012). According to the breakdown by stage of production, in the last twelve months, there was decrease of 0.80% in the prices of raw materials, and increases in the prices of intermediate goods (6.45%) and final goods (4.70%). Inflation measured by the Consumer Price Index (IPC), the second most important component of the IGP-DI, changed 5.29% in the twelve months through September (5.73% in the twelve months through September 2012). The Civil Construction National Index (INCC), component with the lowest weight in the IGP-DI, changed 8.09% (7.49% in the twelve months through September 2012), partially driven by the labor cost, which increased 9.88% in the period. On its turn, the Producer/Manufacturing Industry Price Index (IPP/IT), calculated by the Brazilian Institute of Geography and Statistics (IBGE), increased 1.48% in August, expanding by 5.97% in twelve months. The Copom considers that the effects of the behavior of wholesale prices on consumer inflation will depend on the current and prospective demand conditions and on the price setters' expectations regarding the future inflation path.
4. The Economic Activity Index of the BCB (IBC-Br) incorporates estimate for the monthly production of the three sectors of the economy, as well as for taxes on products, and constitutes important coincident indicator of economic activity. Considering seasonally adjusted data, the IBC-Br retreated 0.3% in July, after increasing by 1.0% in June. Year-over-year, the IBC-Br grew 2.4% in June and 3.4% in July. In the last twelve months, the indicator grew 2.1%. The Consumer Confidence Index (ICC), from the Getúlio Vargas Foundation (FGV), expanded again in September, due to improvements in the perception of both the current situation and in the expectations regarding the future. The consumer confidence reached the highest level since February. On the other hand, the Services Sector Confidence Index (ICS) pointed to stability in September, standing below the recent historical average. On its turn, the industrial businessmen confidence, measured by the Industry Confidence Index (ICI), decreased in September, reaching the lowest level since July 2009. Regarding agriculture, the Agricultural Production Systematic Assessment (LSPA), carried out by the IBGE, indicates that grains production should grow by 15.5% in 2013, relative to the 2012 harvest.
5. The Brazilian economy grew 1.5% in the second quarter of 2013, after expanding by 0.6% in the previous quarter, according to seasonally adjusted data released by the IBGE. Year-over-year, the expansion reached 3.3% (compared to 1.9% in the first quarter). Therefore, the Gross Domestic Product (GDP) in the first half breached by 2.6% the registered in the first half of 2012, and the growth rate accumulated in the four previous quarters reached 1.9%. On the demand side, household consumption – the greatest component of aggregate demand – grew 0.3% at the margin, according to seasonally adjusted data, and 2.3% compared to the same quarter of 2012. This was the thirty-ninth consecutive expansion in the interannual comparison. On its turn, the government consumption grew 0.5% quarter-over-quarter and 1.0%, compared to the same quarter of 2012. The growth pace of Fixed Capital Gross Formation (FCGF) pointed to expansion of 3.6% at the margin, and of 9.0%, compared to the same quarter of 2012, indicating increase in the investment rate of the economy.
6. Credit Conditions Indicators, elaborated by the Central Bank based on a quarterly survey carried out with institutions representing each segment of the credit market, evidenced, for the fourth quarter of 2013, the



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expectation of maintenance of the volume of concessions of new credit operations, both for the segment of big companies and for the micro, small and medium companies. Similarly, regarding credit to individuals, the analysis suggests some stability in the pace of concessions of credit lines destined to consumption – which were affected by the combined effect of interest rates elevation, improvement of default indicators and some cooling in the labor market. For the housing credit, which presents greater inertial component, the elevation in the concession levels is expected.

7. Industrial activity showed stability in August, according to the seasonally adjusted series released by the IBGE, after falling by 2.4% in July. In August, the industrial production increased in 15 out of the 27 surveyed activity sectors, on a month-on-month basis. The monthly production was 1.2% below the one registered in August 2012, resulting in increase of 0.7% in the last twelve months. As a consequence, the industrial output in the first eight months of the year breached by 1.6% the one recorded in the same period of the previous year, with positive highlight for the production of automotive vehicles, which expanded by 11.0% according to this comparison basis. On its turn, the Purchasing Managers Index (PMI) of the industrial sector regarding Brazil indicated improvement in September. According to data released by the National Confederation of Industry (CNI), real revenue in the manufacturing industry increased 4.6% in the first eight months of the year, compared to the same period of the previous year, while the number of hours worked did not change.
8. Among the industry use categories, the production of capital goods increased 11.8% in August, year-over-year; the production of intermediate goods totaled -2.0%; of durable consumer goods, -6.3%; and of semidurable and non-durable consumer goods, -1.6%. Month-on-month, according to data seasonally adjusted by the IBGE, the production of capital goods in August increased 2.6%, of intermediate goods, 0.6%, and of durable consumer goods, 0.2%, while the one related to semi-durable and non-durable consumer goods, retreated 0.3%. Regarding growth accumulated in the last twelve months through August, there were expansions in the production of capital goods (4.6%) and in the production of durable consumer goods (3.2%). On its turn, the production of semi-durable and non-durable consumer goods increased 0.2%, and the one related to intermediate goods retreated by 0.2%, according to this comparison basis.
9. The unemployment rate in the six metropolitan areas covered by the Monthly Employment Survey (PME), without seasonal adjustment, retreated to 5.3% in August, repeating the rate recorded in August 2012. Therefore, according to the BCB seasonally adjusted series, the unemployment rate in August reached again the record low of the historical series (5.3%), started in March 2002. The reduction of the Working Age Population (WAP) growth rate in the last years has contributed for the maintenance of the idleness rate at historically low levels. On the other hand, the activity rate showed stability in August, as the economically active population share represented 57.2% of the WAP (compared to 57.0% in August 2012). Still according to the PME, the average real income increased 1.3% in August, year-over-year, while real payroll increased 2.7%, according to the same comparison basis. Data released by the Ministry of Labor and Employment (MTE) show that 127.6 thousand formal jobs were created in August (100.9 thousand in August 2012). In short, the set of available data indicates narrow idleness margin in the labor market, although there are some signs of moderation at the margin.
10. Retail sales performed positively in July. According to the retail monthly survey (PMC), released by the IBGE, retail sales volume increased 6.0% in June, year-over-year. Broad retail sales volume, which includes vehicles and construction inputs, increased by 3.7%, according to the same comparison basis. According to the month-on-month seasonally adjusted series, retail sales changed by 1.9%, and broad retail sales, by 0.6%. Therefore, the broad retail sales growth rate in the last twelve months reached 5.8%, with expansion in all ten sectors surveyed. The Trade Confidence Index (ICOM), measured by the FGV, increased in the quarter ended in September, similarly to the occurred in the previous month. The Copom evaluates that the retail sales trajectory will continue to be influenced by governmental transfers, by the pace of real payroll growth and by the moderate credit expansion.
11. The installed capacity utilization rate (Nuci) in the manufacturing industry, calculated by the FGV, without seasonal adjustment, reached 85.0% in September (84.9% in September 2012). According to the seasonally adjusted series calculated by the FGV, the Nuci in September reached 84.2%. Capacity utilization in the capital goods sector, according to the seasonally adjusted series, stood at 83.1%. In the sector of consumer



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goods, intermediate goods and construction inputs, the utilization capacity stood at 82.7%, 86.2% and 89.1%, respectively. On its turn, the absorption of capital goods grew 5.3% in the last twelve months ended in August.

12. The twelve-month trailing trade balance result retreated to US\$2.1 billion in September. This result stemmed from US\$239.6 billion in exports and US\$237.5 billion in imports, which diminished 2.8% and increased 6.0%, respectively, compared to the previous twelve months. On its turn, the current account deficit, accumulated in twelve months, reached US\$80.6 billion in August, equivalent to 3.6% of the GDP. Foreign direct investment totaled US\$61.1 billion in the twelve months through August, equivalent to 2.7% of the GDP.
13. In the global economy, a scenario of low growth prospects in important advanced economies prevails, notably in the Euro Zone, and volatility indicators have responded to the prospects of monetary policy change and to the fiscal policy deadlocks in the US. High unemployment rates in Europe, coupled with the efforts of fiscal consolidation and political uncertainties, are translated into investment retreat and in low growth. The composite leading indicator, released by the Organization for Economic Cooperation and Development (OECD), referring to August, and the PMI coincident indicators, relative to September, however, signal improvements at the margin in several advanced economies, with prospects of growth above the trend, in contrast to the observed in emerging economies. Regarding monetary policy, accommodative stances have prevailed in the advanced economies. In emerging economies, in general, monetary policy is expansionist. Inflation has remained at moderate levels in the US and in the Euro Zone, and in Japan, it consolidated above zero.
14. The price of the Brent oil barrel has slightly retreated since the previous Copom meeting, reflecting some cooling in geopolitical risks. It bears highlighting that the geopolitical complexity that involves the oil sector tends to heighten the volatile behavior of prices, which also reflects the low predictability of some global demand components and the dependency of supply growth on long term risky investment projects. Since the last Copom meeting, the international prices of agricultural commodities have decreased 2.1%, while the ones relative to metals have fallen 1.0%. On its turn, the Food Price Index, calculated by the Food and Agriculture Organization of the United Nations (FAO), changed -7.8% in the twelve months through September 2013.

### Assessment of Inflation Trends

15. The identified shocks, and their impacts, were reassessed according to the new set of available information. The scenario considered in the simulations was based on the following assumptions:
  - a) the projected adjustment for gasoline price for the whole year of 2013 was maintained at 5%, unchanged relative to the value considered at the August Copom meeting;
  - b) the projected adjustment for household electricity price points to a decrease of nearly 16%, unchanged relative to the August Copom meeting. This estimate considers the direct impacts of the sector charges reductions announced, as well as readjustments and ordinary tariff revisions planned for this year;
  - c) for the whole year of 2013, bottled gas prices are projected to increase by 2.5% and the fixed telephone tariff is projected to decrease 1.0%, the same values considered at the August Copom meeting, respectively;
  - d) the projected adjustment, based on individual items, for the set of regulated prices inflation accumulated for the whole year of 2013, retreated to 1.5%, 0.3 p.p. below the value considered at the August Copom meeting; and
  - e) the projected cumulative adjustment for the set of regulated prices in 2014 was maintained at 4.5%, the same value considered at the August Copom meeting. This projection is based on endogenous determination models for regulated prices, which compute, among other factors, seasonal components, market prices inflation, and the inflation measured by the IGP (General Price Index).
16. The projection for the spreads over the Selic rate, based on the 360-day swap rates, on the baseline scenario, estimates 115 bps and 4 bps spreads for the fourth quarters of 2013 and 2014, respectively.
17. The structural primary surplus that derives from the primary surplus trajectories for 2013 is considered as the fiscal indicator, according to the parameters set out in the Budget Guidelines Law (LDO)/2013; and, for 2014,



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according to the parameters set out in the Budget Guidelines Law Project (PLDO)/2014. Thus, in a given period, the inflation projection considers as fiscal impulse the variation of the structural surplus in comparison to the observed in the previous period.

18. Since the last Copom meeting, the median of the projections compiled by the Investor Relations and Special Studies Department (Gerin) for the 2013 IPCA slightly increased, from 5.80% to 5.82%. For 2014, the median of the inflation projections increased from 5.84% to 5.95%.
19. The baseline scenario assumes the maintenance of the exchange rate at R\$2.20/US\$1.00 and the Selic rate at 9.00% p.a. during the forecast period. Under this scenario, the projection for the 2013 inflation decreased relative to the value considered at the previous Copom meeting, however, it remains above the 4.50% midpoint target established by the National Monetary Council (CMN). According to the market scenario, which incorporates the consensus exchange and Selic rates trajectories collected by Gerin with market analysts, in the period immediately prior to the Copom meeting, the 2013 IPCA inflation forecast also decreased relative to the value considered at the August meeting, and also stands above the inflation target. For 2014, in the baseline scenario, the inflation forecast decreased relative to the figure considered at the August Copom meeting and increased in the market scenario, standing both above the 4.5% target. For the third quarter of 2015, the inflation forecast stands above the target in both scenarios.

### Monetary Policy Decision

20. The Copom evaluates that the monetary policy should contribute to the consolidation of a favorable longer-term macroeconomic environment. In this respect, the Copom reassures that, under the inflation targeting regime, it guides its decisions according to BCB projected inflation and based on the analysis of alternative scenarios for the evolution of the main variables that determine prices dynamics. The Committee also understands that low risks for the underlying inflation in the short run tend to reduce uncertainties regarding the future behavior of headline inflation, facilitate the assessment of scenarios by the monetary authority, as well as help the process of coordination of economic agents' expectations, particularly prices setters'. Additionally, it is noteworthy that low risks for the underlying inflation in the short run tend to intensify the effects of monetary policy actions, enabling them to affect in a more long-lasting manner the dynamics of headline inflation in the future. Although the Copom recognizes that other macroeconomic policy actions may influence the prices trajectory, it reaffirms its view that it is particularly under the responsibility of the monetary policy to remain especially vigilant, to guarantee that pressures detected in shorter horizons do not spread to longer horizons.
21. The Copom considers that, since its last meeting, the risks to global financial stability remained high, particularly those derived from the ongoing deleveraging process in the main economic blocks. Despite identifying low probability of occurrence of extreme events in the international financial markets, the Committee considers that the external environment remains complex. The Committee evaluates that, in general, the prospects for moderate global activity this year have remained, with trend of intensification over the relevant horizon for the monetary policy. There are localized improvements in advanced economies, although the space to use monetary policy remains limited and the fiscal restraint scenario prevails in this and in the upcoming years. In important emerging economies, however, the activity pace has not matched the expectations, despite the resilience of domestic demand. The Committee highlights evidences of accommodation of commodities prices in the international markets, as well as that, since the last meeting, there was some cooling in the tensions and in the volatility which were then observed in the currency market.
22. The Copom evaluates that the main scenario encompasses a more intense domestic activity pace in this and in the upcoming year. Recent information indicate resumption of investments and continuity of household consumption growth, the latter favored by public transfers and by the vigor in the labor market - which reflects in historically low unemployment rates and in wages growth. In general, domestic absorption has expanded at rates higher than GDP growth rates and tends to be benefited by the effects of fiscal policy actions, by the expansion of credit supply, both for individuals and corporates, and by the program of public services concession, among other factors. Regarding the external component of the aggregate demand, the main scenario anticipates a more benign course than that registered in recent years. However, the Committee notes





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that the speed of materialization of these expected gains depends on the confidence strengthening of companies and households.

23. The Copom observes that the main inflation scenario considers the materialization of the assumed trajectories regarding fiscal variables. For the Committee, conditions are created so that, in the relevant horizon for monetary policy, the balance of the public sector shifts to the neutral zone. The Committee also notes that the generation of primary surpluses in line with the working hypotheses considered for inflation projections, on the one hand would contribute to reduce the mismatch between supply and demand growth rates; on the other hand, would contribute to create a positive perception regarding the macroeconomic environment in the medium and long terms.
24. The Copom highlights that its main scenario also considers moderate credit expansion. Still regarding the credit market, the Committee considers opportune initiatives with the aim of moderating the concessions of subsidies through credit operations.
25. In the factors market, the Copom highlights the narrow idleness margin in the labor market and it considers that, under such circumstances, a significant risk stems from the possibility of concession of wages increases incompatible with productivity growth and their negative impacts over inflation. Despite the moderation signs, the Committee evaluates that the wages dynamics remains originating inflationary cost pressures.
26. The Committee considers that the exchange rate depreciation and volatility observed in the recent quarters enable a natural and expected correction in relative prices. For the Committee, these movements in the local currency market, to some extent, reflect prospects for the transition of international financial markets towards normality, among other dimensions, in terms of liquidity and interest rates. It is also important to highlight that, for the Committee, the aforementioned exchange rate depreciation is a source of inflationary pressure in shorter periods. However, the secondary effects stemming from it, and that would tend to materialize over longer periods, can and should be limited by appropriate monetary policy handling.
27. The Copom evaluates that the high consumer inflation level in the last twelve months contributes for inflation to still show resistance. In this context, the formal and informal indexation mechanisms and the economic agents' perception regarding the inflation dynamics are also included. Considering the damage that the persistence of this process would cause to the decision-making process on consumption and investment, in the Committee's view, it is necessary that, with the due promptness, it is reverted.
28. In this context, the Copom understands that it is appropriate to continue the adjustment pace of the monetary conditions underway.
29. Therefore, continuing the basic interest rate adjustment, the Copom unanimously decided to increase the Selic rate to 9.50% p.a., without bias. The Committee evaluates that this decision will contribute to set inflation into decline and ensure that this trend persists in the upcoming year.
30. The following members of the Committee voted for this decision: Alexandre Antonio Tombini (Governor), Aldo Luiz Mendes, Altamir Lopes, Anthero de Moraes Meirelles, Carlos Hamilton Vasconcelos Araújo, Luiz Awazu Pereira da Silva, Luiz Edson Feltrim and Sidnei Corrêa Marques.
31. The Copom evaluates that the domestic demand tends to be relatively robust, especially household consumption, largely due to the effects of stimulus factors, such as income growth and moderate credit expansion. This scenario tends to prevail in this and in the upcoming semesters, when domestic demand will be impacted by the remaining effects of the policy actions recently implemented. These effects, the programs of public services concession, the permissions for the exploration of oil, among others, create good prospects for investments and industrial production. On the other hand, the Committee notes that the fragile international scenario still represents an aggregate demand restraining factor, despite the prospects of progress in the relevant horizon. These elements and the developments in the quasi fiscal framework and in the assets market are important parts of the context in which future monetary policy decisions will be taken, aiming to ensure the timely convergence of inflation to the targets path.



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32. The Copom emphasizes that the international evidence, in which it is ratified by the Brazilian experience, indicates that high inflation rates generate distortions that lead to higher risks and depress investments. These distortions are manifested, for example, in the shortening of the planning horizons of households, companies and governments, as well as in the deterioration of the businessmen confidence. The Committee also emphasizes that high inflation rates subtract the purchasing power of wages and transfers, with negative repercussions over household's confidence and consumption. Therefore, high inflation rates reduce the growth potential of the economy, as well as of jobs and income generation.
33. The Copom highlights that, in moments such as the current one, the monetary policy should remain especially vigilant, in order to minimize risks that high inflation rates, such as the one observed in the last twelve months, persist in the relevant horizon for the monetary policy.
34. At the end of the meeting, it was announced that the Committee will reconvene on November 26<sup>th</sup>, 2013, for the technical presentations, and on the following day, to discuss monetary policy, as established in the Communiqué 22,665, of June 27<sup>th</sup>, 2012.

### SUMMARY OF DATA ANALYZED BY THE COPOM

#### Inflation

35. The IPCA changed 0.35% in September, compared to 0.24% in August, according to the IBGE. The monthly acceleration reflected the increases of 0.12 p.p., to 0.41%, in market prices, and of 0.07 p.p., to 0.16%, in regulated prices. The evolution of market prices reflected accelerations of tradable goods prices, from 0.39% to 0.61%, and non-tradable goods prices, from 0.20% to 0.23%, with acceleration in the prices of services, from 0.60% to 0.63%. The IPCA monthly acceleration was favored, mainly, by the increase, from -0.06% to 0.44%, in the prices of transportation, with contribution of 0.08 p.p. for the index, compared to -0.01 p.p. in August. The diffusion index reached 57.81% in September, compared to 58.63% in August.
36. Considering twelve months periods, the IPCA reached 5.86% in September, compared to 6.09% in August. Market prices decelerated from 7.64% to 7.37%, mirroring the cooling, from 6.75% to 6.43%, in the prices of tradable goods, and from 8.42% to 8.20%, in the prices of non-tradable goods. Regulated prices change reached 1.12%, compared to 1.27% in the twelve-month period ended in August. The prices of services increased 8.73%, compared to 8.60% and 8.48% in the twelve months periods ended in August and July, respectively.
37. The IGP-DI changed 1.36% in September, after an increase of 0.46% in August, according to the FGV, as a result of the IPA, IPC and INCC accelerations. The indicator accumulates increases of 3.86% in the year, compared to an increase of 7.46% in the same period of 2012, and of 4.47% in twelve months, compared to 3.98% up to August.
38. The IPA-DI increased 1.90% in September, compared to 0.58% in August, accumulating increases of 3.39% in the year and of 3.62% in twelve months. Industrial products prices increased 1.85% in the month, compared to 0.67% in August, accumulating increases of 5.91% in the year and of 6.06% in twelve months. Agricultural products prices increased 2.04% in September, compared to 0.36% in the previous month, accumulating decreases of 2.74% in the year and of 2.35% in twelve months. The monthly performance of industrial products prices evidenced, mainly, the increase in the prices of vegetable oils and fats, 9.52%, and metallic minerals, 4.59%, which contributed 0.27 p.p. and 0.25 p.p., respectively. Regarding agricultural products, it bears noticing the changes in the items soybeans, 7.51%; poultry, 8.49%; and bovines, 2.46%; with contributions of 0.40 p.p., 0.14 p.p. and 0.09 p.p., respectively.
39. The IPC-DI changed 0.30% in September, compared to 0.20% in August, increasing by 3.63% in the year, compared to 4.07% in the same period of the previous year, and 5.29% in twelve months. The monthly acceleration of the IPC-DI in September reflected the increases in the prices of some groups, such as housing, to 0.51%, up from 0.35% in August; apparel, to 0.86%, up from 0.34%; and transportation, to 0.07%,



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up from -0.26%, with contributions of 0.13 p.p., 0.05 p.p. and 0.01 p.p., respectively. The INCC-DI changed 0.43% in September, compared to 0.31% in August, with acceleration in the prices of materials, equipment and services, from 0.66% to 0.91%, and stability in the costs of labor force, repeating the result of the previous month. The INCC increased 7.33% in the year and 8.09% in twelve months.

40. The IPP/IT increased 1.48% in August, compared to 1.21% in July, accumulating 4.3% in the year, compared to 5.59% in the same period of 2012. The monthly result of the IPP/IT reflected, mainly, the respective increases of 3.15%, 1.34% and 1.80% in the prices of food, other chemical products and metalurgy, contributing respectively 0.63 p.p., 0.15 p.p. and 0.14 p.p. to the index. In twelve months, the IPP/IT changed 5.97% in August, compared to 4.98% in July, with highlights to the contributions of other chemical products, 1.44 p.p., food, 0.95 p.p.; and coke, oil byproducts and biofuels, 0.61 p.p..
41. The Commodities Index Brazil (IC-Br) decreased 2.82% in September, after increasing 3.77% in August, with devaluations of 2.69%, 3.95% and 2.39% in the segments of agriculture, metals commodities and energy, respectively. The IC-Br accumulated an increase of 0.62% in the year through September, a result of the devaluations of 0.73% in the segment of agriculture commodities and of the valuation of 0.30% and 7.05% in the segments of metal and energy commodities, respectively.

### Economic Activity

42. The IBC-Br decreased 0.33% in July, month-on-month, considering seasonally adjusted data. The index changed 0.07% in the quarter ended in July, compared to the quarter ended in April, when it had increased 1.29%, according to the same comparison basis. Considering observed data, the IBC-Br changed 3.38% year-over-year, compared to 2.35% in June, according to the same comparison basis, and accumulated increases of 2.97% in the year and of 2.11% in the twelve-month period through July.
43. Broad retail sales, which include vehicle and construction inputs, increased 0.6% in July, month-on-month, according to data seasonally adjusted from the IBGE's retail monthly survey (PMC), after changes of 0.9% in June and -1.6% in May. Sales increased 0.6% in the quarter ended in July, quarter-over-quarter, when they had grown 0.5%, according to the same comparison basis. By segment, eight out of the ten surveyed segments increased, with highlights for textiles, apparel and footwear, 5.4%, other articles of domestic and personal use, 3.9%, and office equipment and materials, 3.5%. In contrast, it is worth mentioning the downturn in the sales of vehicles, motorcycles, parts and pieces (-3.5%). Retail sales increased 1.9% in July, month-on-month, after increases of 0.4% in June and 0.3% in May, accumulating an expansion of 1.6% in the quarter ended in July, compared to the previous quarter. The retail sales increased 6% year-over-year and 5.4% in the twelve-month period through July.
44. Considering observed data, broad retail sales increased 3.7% in July, year-on-year, with emphasis in the expansion of other articles of domestic and personal use, 12%; pharmaceutical, medical, orthopedic, perfumery and cosmetic articles, 11.6%; furniture and electronics, 11%; and construction inputs, 10.6%. Broad retail sales increased 5.8% in the twelve-month period ended in July, with highlights for the increase of other articles of domestic and personal use, 10.7%; pharmaceutical, medical, orthopedic, perfumery and cosmetic articles, 9.2%; fuels and lubricants, 7.5%; construction inputs, 7.2%; furniture and electronics, 7.1%; and vehicles, motorcycles, parts and pieces, 6.2%.
45. Automobile sales by dealers, including cars, light commercial vehicles, trucks and buses, reached 309.9 thousand units in September, decreasing 1% month-on-month, according to the Automotive Vehicles Distribution National Federation (Fenabrave), seasonally adjusted by the BCB. These sales decreased 5.1% in the quarter ended in September, compared to the one ended in June, when they had decreased 1%, according to the same comparison basis. Considering twelve-month periods, automobile vehicles decreased 0.4% in September, due to the decrease of 1.9% in the sales of automobiles. In contrast, the sales of trucks, buses and light commercial vehicles increased 7.7%, 5.8% and 3.4%, respectively.
46. Capital goods imports quantum, released by the Foreign Trade Studies Centre Foundation (Funcex) and seasonally adjusted by the BCB, decreased 10.3% in August, month-on-month. The observed data analysis





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showed changes of -6.1% compared to August 2012, of 4.3% in the year, and of 2.5% in the twelve-month period ended in August.

47. Capital goods production increased 2.6% in August, accumulating an expansion of 2.9% in the quarter ended in August, compared to the previous quarter, according to data seasonally adjusted from the Monthly Industrial Survey (PIM), by the IBGE. The monthly result reflected, especially, the increases in the production of transport equipment, 7.1%; of capital goods for the electric energy sector, 5.5%; and of non-serial industrial equipment, 4.9%. In contrast, it bears highlighting the respective decreases of 3.2% and 2.3% in the segment of agricultural pieces and agricultural goods. Considering the observed data, the expansion of 11.8%, year-over-year, reflected the increase in the production of capital goods for construction, 46.9%; of agricultural equipment, 25.2%; and of agricultural pieces, 24.4%.
48. Construction inputs production decreased by 0.4% in August, showing stability in the quarter ended in August, compared to the quarter ended in May, considering seasonally adjusted data. Considering the last twelve months through August, the segment production increased 0.7%.
49. Disbursements granted by the Brazilian Development Bank (BNDES) totaled R\$190.2 billion in the twelve months through July, 38.3% above the same period of 2012. The resources destined to all segments grew: agriculture and the livestock sector (76%); commerce and services (62%), industry (30%) and infrastructure (22%). In the period, the infrastructure sector absorbed 32% of the total resources, followed by industry (31%), commerce and services (28%) and agriculture and the livestock sector (9%).
50. Industrial production remained stable in August, month-on-month, according to IBGE seasonally adjusted data, after decreasing by 2.4% in July. The mining and the manufacturing industries both grew 0.2% in the month. According to the use categories, there were increases in the production of capital goods (2.6%), followed by intermediate goods (0.6%) and durable consumer goods (0.2%). In contrast, semi and non-durable consumer goods retreated 0.3% in the analysed period. Fourteen out of the 26 manufacturing industry activities surveyed increased in the month, with highlights for the segments of apparel (7.2%), miscellaneous (2.7%) and food (2.5%), in contrast to the respective decreases of 7.7%, 5.6% and 5.1% in the industries of tobacco, pharmaceuticals and perfumery, soaps, detergents and cleaning products. The industrial production decreased 0.3% in the quarter ended in August, compared to the quarter ended in May, when it had increased by 0.7%, reflecting changes of 3% in the mining industry and -0.5% in the manufacturing industry. It bears highlighting the increases in the industries of tobacco (4.5%); footwear and leather (3.8%); other transportation equipment (3.4%); and metal products (3.2%); and the retractions in the industries of furniture (-6.3%); office machines and computer equipment (-5.8%); and perfumery, soaps, detergents and other cleaning products (-5.5%). Considering observed data, industrial production retreated by 1.2% in August, year-over-year, recording decreases of 2% in the mining industry and of 1.2% in the manufacturing industry, with highlights for the decreases of 6.3% in the durable consumer goods and of 2% in the intermediate goods, in contrast to the increase of 11.8% in the capital goods production. The 1.1% expansion in the quarter ended in August, year-over-year, reflected, in particular, the increase of 14.3% in the capital goods industry, whereas the expansion of 0.7% in the twelve months through August was primarily driven by the increases in capital goods (4.6%) and durable consumer goods (3.1%).
51. The installed capacity utilization rate (Nuci) in the manufacturing industry reached 84.2% in September, stable relative to August, according to data seasonally adjusted by the FGV. Among the use categories, there were increases in the production of non-durable consumer goods, (1.6 p.p.), capital goods (1.2 p.p.) and intermediate goods (0.1 p.p.); and retractions in the production of durable consumer goods (-1.8 p.p.) and construction inputs (-1.7 p.p.). Considering the observed series, the Nuci increased 0.1 p.p. year-over-year, reaching 85%, as a result of the increases in the production of construction inputs (2.9 p.p.), capital goods (1.8 p.p.) and intermediate goods (1.2 p.p.), and of the decreases in the production of durable consumer goods (-5.5 p.p.) and non-durable consumer goods (-0.6 p.p.).
52. Vehicles output reached 332 thousand units in September, representing an increase of 5.5% month-on-month, according to data released by the National Association of Automotive Vehicle Manufacturers (Anfavea), seasonally adjusted by the BCB. In the third quarter, the production decreased by 5.8%, compared to the



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previous quarter, when it had increased 11.8%. Considering observed data, vehicles output increased 15.2% year-over-year, 13.9% in the year and 13.2% in the twelve months through September.

53. Still according to data released by Anfavea, national vehicle licensing increased 2.4% in September, month-on-month, and decreased 5.7% in the third quarter, considering data seasonally adjusted by the BCB. Regarding observed data, there were changes of 7.1% year-over-year, 3.1% in the year and 6.5% in twelve months. Automobile exports totaled 45.5 thousand units in September, representing increases of 66.6% year-over-year, 31.6% in the year and 13% in twelve months. According to the series seasonally adjusted by the BCB, exports decreased 15.6% in the month, month-on-month, and 10% in the third quarter, compared to the previous quarter.
54. The LSPA survey carried out by the IBGE, regarding September, projected 187 million tons for the 2013 national harvest of grains, representing changes of 15.5% year-over-year and -0.2% over the August crop estimate. Compared to 2012, the estimated expansion is due, in particular, to the expected growth in the production of soybeans (23.8%), followed by the growth estimates for corn (13.2%), wheat (10.3%), beans (4.4%) and rice (2.7%). Moreover, a 6.9% increase is estimated for the harvest of sugar cane, according to the same comparison basis.
55. According to the Monthly Service Survey (PMS), carried out by the IBGE, the nominal revenue from the services sector increased 9% in July, year-over-year, compared to 8.8% in June and 7.6% in May. The result mainly reflected the increase of transportation, support activities for transportation and mailing activities (12.4%). The nominal revenue in the services sector increased 8.6% in the year through July, with highlights for the segment of transportation, support activities for transportation and mailing activities (11.1%).

### Surveys and Expectations

56. The Consumer Confidence Index (ICC), considering seasonally adjusted data from the nationwide Consumer Expectations Survey (FGV), reached 114.2 points in September. The increase of 1% month-on-month reflected changes of 3.5% in the Current Situation Index (ISA) and 0.4% in the Expectations Index (IE). According to observed data, the ICC decreased 6.5% year-over-year, due to decreases of 11.3% in the ISA and of 3.5% in the IE.
57. The ICS, carried out by the FGV, considering seasonally adjusted data, reached 116.3 points in September. The decrease of 0.2% month-on-month reflected changes of -1.4% in the Current Situation Index (ISA) and 0.7% in the Expectations Index (IE). The ICS decreased 3.8%, year-over-year, due to decreases of 5.6% in the ISA and 2.5% in the IE.
58. The Commerce Confidence Index (ICOM), measured by the Commerce Survey, from the FGV, reached 125.2 points in September, decreasing 5.7% year-over-year. The result reflected the decreases of 6.9% in the Current Situation Index (ISA-COM) and 5% in the Expectations Index (IE-COM). In the third quarter, the ICOM decreased 3.6%, year-over-year, due to the retractions of 4.6% in the ISA-COM and 3% in the IE-COM.
59. The Manufacturing Confidence Index (ICI), considering data seasonally adjusted from the nationwide Manufacturing Survey (FGV), reached 98 points in September, a decrease of 1% month-on-month seasonally adjusted, driven by the decreases of 1.4% in the Expectations Index (IE) and 0.6% in the Current Situation Index (ISA). The ICI decreased 6.3% year-over-year, as a result of the decreases of 7.1% in the IE and 5.6% in the ISA.
60. The Construction Confidence Index (ICST), measured by the Construction Survey, from the FGV, reached 117 points in September, decreasing 4.6% year-over-year. The result reflected retreats of 5% in the Expectations Index (IE-ICST) and 4.1% in the Current Situation Index (ISA-ICST). In the quarter ended in September, the ICST also decreased 4.6%, year-over-year, influenced by the decreases of 6.7% in the ISA-ICST and 2.8% in the IE-ICST.



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### Labor Market

61. According to the General Record of Employment and Unemployment (Caged) of the Ministry of Labor and Employment (MTE), 127.6 thousand formal jobs were created in August, up from 100.9 thousand in the same month of 2012, of which 64.3 thousand in the services sector and 50.1 thousand in commerce. In the year, 826.7 thousand jobs were created and, in the twelve months through August, 593.2 thousand, compared to 1.1 million for both equivalent periods of 2012. Month-on-month, formal job creation expanded by 0.3% in August, considering data seasonally adjusted by the BCB.
62. According to the IBGE employment survey (PME), conducted in the six main metropolitan areas of the country, the unemployment rate reached 5.3% in August, representing retraction of 0.3 p.p. month-on-month and stability year-over-year. The monthly result reflected increase of 0.4% in the employed population and stability in the Economically Active Population (PEA). Year-over-year, the employed population increased 1.2%, compared to 1.5% in July, according to the same comparison basis. Considering seasonally adjusted data, the unemployment rate decreased from 5.5% in July to 5.3% in August. According to the same survey, the average real income usually earned by workers increased 1.7% month-on-month and 1.3% year-over-year. Real payroll, defined as the product of the number of persons employed by the usual real average income of the main work, changed 2.1% and 2.5%, respectively, according to the same comparison bases.

### Credit and Delinquency Rates

63. The total credit in the financial system, including the non-earmarked and earmarked credit operations, totaled R\$2,578 billion in August, with expansions of 1.3% in the month and 16.1% in twelve months. The credit-to-GDP ratio reached 55.5%, compared to 55.2% in July and 51.5% in August 2012. The balance of non-earmarked credit operations, equivalent to 56.3% of the total credit outstanding in the financial system, rose 0.5% in the month and 8.8% in twelve months, reflecting respective changes of 0.6% and 7.7%, respectively, for credit operations with individuals and 0.5% and 9.9%, respectively, for credit operations with corporate. The earmarked credit operations increased, respectively, 2.3% and 27.2%, according to the same comparison bases, with highlights for the increases of 2.7% and 35.1%, respectively, in mortgages, for the segment of individuals, and 2% and 19.2%, respectively, in the BNDES's financing for the operations destined to corporate.
64. The overall average interest rate of loans in the financial system reached 19.3% p.a. in August, representing expansion of 0.2 p.p. month-on-month and a fall of 0.3 p.p. year-over-year. The average rates for the segments of individuals and corporate reached, respectively, 25.2% and 14.7%, corresponding to expansions of 0.1 p.p. and 0.3 p.p., respectively, month-on-month, and retreats of 0.5 p.p. and 0.2 p.p., year-over-year.
65. The overall average tenure on credit operations reached 98 months in August, representing increases of 4.1 months, month-on-month, and 14.6 months, year-over-year. The average tenure related to individuals reached 134.6 months, increasing 0.7 month, month-on-month, and 18.9 months, year-over-year. In the corporate segment, the average tenure reached 69.6 months, increasing 6.6 month, month-on-month, and 11.1 months, year-over-year.
66. The delinquency rate in the financial system, corresponding to operations in arrears for more than ninety days, stood at 3.3% in August, showing stability month-on-month and decreasing 0.6 p.p. year-over-year. The indicators related to operations with individuals and corporate reached 4.8% and 2%, respectively, in August, with a decrease of 0.2 p.p. and stability, in the same order, month-on-month, and reductions of 1.1 p.p. and 0.3 p.p., in twelve months.

### External Environment

67. The global economic recovery remains at a moderate pace, highlighting the acceleration in the advanced economies. The global composite PMI for the third quarter reached its highest level since the first quarter of 2012, suggesting an increase in the overall growth rate in the period. In the US, the manufacturing PMI rose to



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56.2 in September, from 55.7 in the previous month, while the services PMI fell to 54.4, down from 58.6 on the same dates. The unemployment rate fell to 7.3 % in August, remaining at a high level, and the generation of non-rural jobs reached an average of 148 thousand in the quarter ended in August, the lowest average since August 2012. The housing sector remains in recovery and the confidence index of homebuilders reached, in September, the highest value since November 2005. However, the increase, from May, of the average rate on 30-year fixed mortgage represents a risk to this recovery. In the Euro Area, the composite PMI reached in September its highest level in 27 months, 52.2. Consumer confidence, on rise since January, favored the recovery of retail sales in July and August, with monthly increases of 0.5% and 0.7%, respectively. In Japan, GDP growth in the second quarter was revised to 3.8 % from 2.6 % in the previous estimate. The PMI in September rose to 53.2, the highest value in four months. In China, exports rose 7.1% in August, year-over-year. The manufacturing PMI rose to 50.2 in September, the second consecutive increase, helped by improved external demand stemming from Europe and the US.

68. During the period, equity markets posted significant gains both in developed and emerging economies, in spite of the uncertainties associated with the start of reducing the monetary stimuli by the Federal Reserve (Fed) and with the deadlock for the approval of the budget and increase in the ceiling of US federal debt. In this environment, the annual yield of ten-year US Treasury bonds continued to increase until September 5<sup>th</sup>, when it reached 2.99%, falling further. The dollar fell against the currencies of South Africa, Australia, Brazil, Chile, India and Turkey, offsetting the gains observed against these same currencies in the previous period.
69. In the international commodities market, the agricultural presented disparate trajectories, with the prices of corn and soybeans dropping sharply in contrast to the increases of sugar, cotton, wheat, beef and pork. Regarding metal commodities, we highlight the advance in the price of tin and decline in the price of iron ore. In the energy segment, it bears highlighting the reduction in the price of Brent oil barrel, due to the cooling of geopolitical tensions in the Middle East and to the resumption of production in Libya.
70. According to the International Financial Statistics, from the International Monetary Fund (IMF), the annual change in the global CPI rose from 3.5% in June to 3.6% in July, a result of the maintenance of the inflation change in emerging economies at 6.6% and an increase in developed economies to 1.6 %, from 1.5%. In August, the inflation change in developed economies fell to 1.3%. The central banks in the US, Euro Area, Japan and the UK maintained their respective official interest rates at historical low levels, as well as the size of their assets purchases programs, at the time that the monetary authorities of Hungary, Israel, Mexico and Romania returned to expand the expansionary stance of theirs policies, reducing their respective basic rates. In the opposite direction, the central banks of India and Indonesia raised their basic interest rates.

### **Foreign Trade and International Reserves**

71. The Brazilian trade balance showed a surplus of US\$2.1 billion in September, as a result of US\$21 billion in exports and US\$18.8 billion in imports. The accumulated deficit in the year totaled US\$1.6 billion, compared to a surplus of US\$15.7 billion in the same period of 2012, reflecting a decrease of 1.6% in exports and an increase of 8.7% in imports, according to the daily averages. The total external trade stood at US\$356.9 billion in the first nine months of the year, an expansion of 3.3%, compared to the same period of 2012, considering the daily average criterion.
72. The international reserves according to the liquidity concept, which includes repurchase lines, totaled US\$376 billion in September, an increase of US\$3.2 billion month-on-month and a decrease of US\$2.6 billion in the year. According to the cash concept, the outstanding totaled US\$368.7 billion, an increase of US\$1.7 billion month-on-month and a decrease of US\$4.5 billion compared to December 2012. In September, the net sales of repurchase agreements lines amounted US\$1.6 billion, while the outstanding totaled US\$7.4 billion.

### **Money Market and Open Market Operations**

73. In the period that followed the August Copom meeting, there was significant fluctuation of domestic interest rates, especially the medium and long term, influenced mainly by external factors. While the short end of the yield curve has always maintained the upward trend, the rates for maturities greater than two years at first



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rose, but reversed the movement from mid-September, falling to levels below the one registered in the previous period. The release of the Inflation Report, considered more conservative, and the market's expectation for continued monetary tightening cycle contributed to the increase of the domestic short-term rates. The movement of reduction of long-term rates was influenced by the maintenance of daily FX swap auctions, the fall in prices of the dollar against the various currencies, especially the BRL, and the reduction in US Treasury bonds interest rates, after the decision by the FOMC on September 18<sup>th</sup>, of maintenance of the monetary stimuli in the United States. Between August 26<sup>th</sup> and October 7<sup>th</sup>, the one-, three- and six-month rates increased by 0.55 p.p., 0.39 p.p. and 0.18 p.p., respectively. Rates for maturities of one, two and three years retreated by 0.04 p.p., 0.15 p.p. and 0.25 p.p., respectively. The real interest rate, measured by the ratio between the one-year nominal interest rate and the inflation expectation (smoothed) for the next twelve months, declined from 3.72% in August 26<sup>th</sup> to 3.54% on October 7<sup>th</sup>, mainly due to an increase in inflation expectations (smoothed) for the next twelve months.

74. From August 27<sup>th</sup> to October 7<sup>th</sup>, the BCB carried out traditional FX swap auctions maturing between November 2013 and October 2014. These operations totaled the equivalent to US\$21.2 billion, of which US\$5.6 billion relative to the rollover of the contracts maturing on October 1<sup>st</sup> 2013. On October 7<sup>th</sup>, the FX short net result of the BCB regarding this instrument totaled the equivalent to US\$55.5 billion in notional value.
75. In the management of the liquidity of the banking reserves' market, the BCB conducted, from August 27<sup>th</sup> to October 7<sup>th</sup>, daily, repurchase agreements with maturity of 3 months, borrowing R\$88.6 billion and, weekly, repurchase agreements with maturity of six months, borrowing the total of R\$32.9 billion. The average daily balance of the outstanding long-term operations retreated from R\$294.8 billion, between July 9<sup>th</sup> and August 26<sup>th</sup>, to R\$265.9 billion, between August 27<sup>th</sup> to October 7<sup>th</sup>. In the same period, the BCB conducted repo operations with maturity of 30 working days, totaling R\$328.1 billion. The BCB also carried out leveling operations, at the end of the day, on 30 occasions, as a borrower. The overall daily average of such overnight operations was R\$106.3 billion in the period. The overall daily average of the total outstanding of repurchase agreements of the BCB decreased from R\$706.7 billion, between July 9<sup>th</sup> and August 26<sup>th</sup>, to R\$700.3 billion, between August 27<sup>th</sup> and October 7<sup>th</sup>. Considering the period between August 26<sup>th</sup> and October 7<sup>th</sup>, the outstanding of repurchase agreements increased from R\$659.2 billion to R\$691.7 billion. The main factors driving the liquidity expansion in the period were the net expenses of the Union and the net redemption of securities by the National Treasury.